

City of Prospect

Growth Corridor Report

Demand Analysis



City of Prospect

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Methodology

The City of Prospect has set a target that one percent of net revenue per annum will be generated from new commercial development in the Urban Corridor Zone (UCZ). This report has been undertaken to determine if there is the demand required to make this target achievable. It is expected that the development which contributes to this target will be a combination of both residential and commercial developments. This study is limited to the UCZ which encompasses the main roads of Churchill Road, Prospect Road and Main North Road. There are also some side streets including Devonport Terrace which are included within the UCZ.

Demand for medium to high density residential apartments is likely to be the largest contributor to the net revenue target in the short to medium term. This report will also examine population growth resulting from residential development in the UCZ.

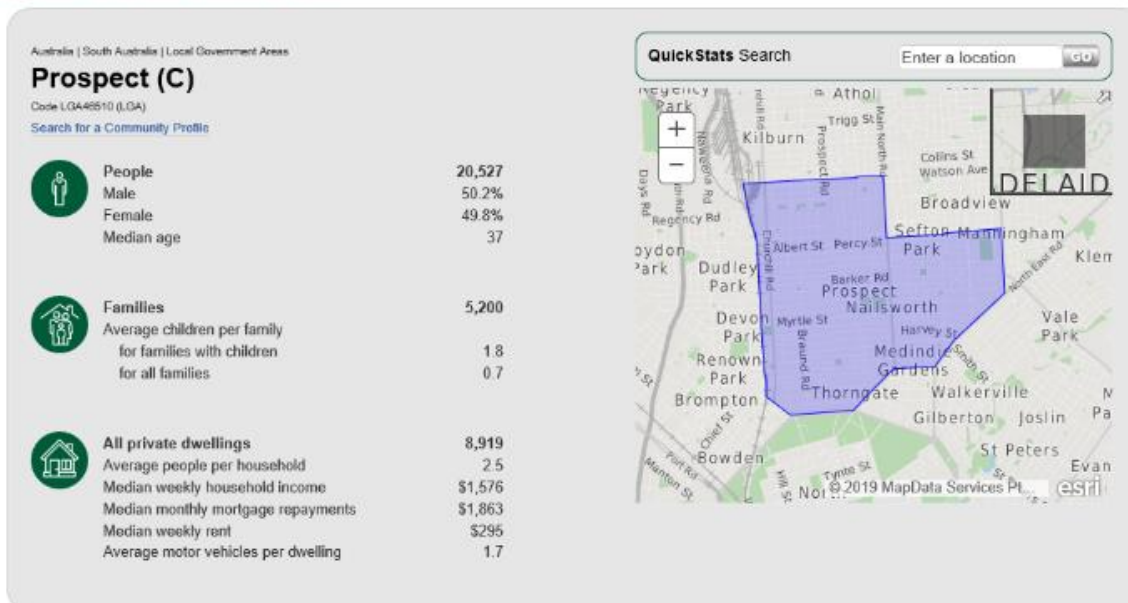
To determine the short-term demand, we will examine the development applications currently before council to forecast the demand through to 2022. Future demand will be determined by a combination of a land supply study (undertaken by another consultant) and an analysis of land sales in the UCZ. We will also examine the factors which influence the supply of new development and the factors that will contribute to a new development reaching completion.

The analysis for commercial demand will examine employment growth and established metro office markets to determine the type and size of demand. As part of the analysis, an assessment of the surrounding established metro office markets past supply, leasing and tenant analysis will be undertaken to determine the most likely sources of demand for office within the City of Prospect.

Population Forecasts

The Australian Bureau of Statistics Census data shows a snapshot of the population within the City of Prospect. Below is a snapshot of the data from 2016 Census statistics.

2016 Census QuickStats



Source: ABS Census Data

HISTORIC CENSUS DATA CITY OF PROSPECT V ADELAIDE (URBAN CENTRE)

The below tables show a summary of the historic population growth comparing the 2006, 2011 and 2016 census data for the City of Prospect and Adelaide (Significant Urban Area)¹. The City of Prospect has seen historic population growth, which is slower than Adelaide (Significant Urban Area).

Number of people	2006	2011	2016	Growth per Annum 2011-2016	Growth per Annum 2006-2011	Growth per Annum 2006-2016
Prospect LGA	19,294	19,955	20,527	0.57%	0.69%	0.64%
Adelaide Urban Centre	1,105,838	1,198,468	1,277,431	1.32%	1.68%	1.55%

No of families	2006	2011	2016	Growth per Annum 2011-2016	Growth per Annum 2006-2011	Growth per Annum 2006-2016
Prospect LGA	4,846	5,101	5,200	0.39%	1.05%	0.73%
Adelaide Urban Centre	297,111	332,653	338,597	0.36%	2.39%	1.40%

¹ The Significant Urban Area is the Adelaide Metropolitan area of Adelaide. This is a better indicator of population growth than state wide.

No of dwellings	2006	2011	2016	Growth per Annum 2011-2016	Growth per Annum 2006-2011	Growth per Annum 2006-2016
Prospect LGA	8,610	8,767	8,919	0.35%	0.36%	0.36%
Adelaide Urban Centre	480,431	522,987	554,938	1.22%	1.77%	1.55%

Median Age	2006	2011	2016
Prospect LGA	36	36	37
Adelaide Urban Centre	38	38	39

No people per dwelling	2006	2011	2016
Prospect LGA	2.4	2.4	2.5
Adelaide Urban Centre	2.4	2.4	2.5

Source: ABS Census Data

There is a slight increase in the number of people per dwelling (both in Adelaide and City of Prospect) since 2006. The key limiting factor for population growth within the City of Prospect has been the lack of new dwellings added to the council region between the 2006 and 2016 census.²

Targets for the City of Prospect

The City of Prospect has completed modelling to determine the amount of new development needed to meet the one percent of net revenue target per annum. There are three proposed growth scenarios which have been analysed as below:

Growth Scenario	Number of Apartments per Annum	Sqm Commercial Space per Annum
Low Growth	80	750
Medium Growth	130	2,200
High Growth	180	3,500

The 1 percent growth target is broadly equivalent to the High Growth Scenario which is 180 apartments with 3,500 sqm of commercial development per annum as outlined above. The following part of this Demand Analysis report will examine the current and future supply pipeline for both residential and commercial projects within the City of Prospect. We will also examine the factors which may influence the delivery of this supply in the future.

CITY OF PROSPECT INITIATIVES

The City of Prospect has invested in several initiatives to attract business and residents to the City of Prospect. These include:

- Innovation Precinct Report, University of Adelaide (2019)
- GigCity Adelaide Network (2019)
- Main North and North East Road Investment Attraction Strategy (2018)

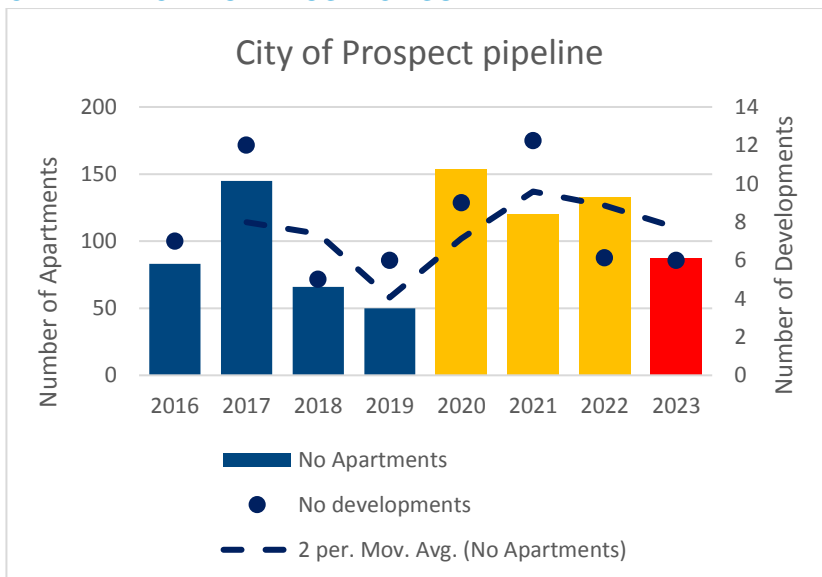
² Department of Transport has advised that the occupancy rate of dwellings in the UCZ is 1.9 people per dwelling

- Main North Road Master Plan (2017)
- Streetscape investment – Prospect Road and Churchill Road – 2014 – 2015.

New supply and population growth

In 2013 the State Government rezoned Churchill Road, Prospect Road, Devonport Terrace and Main North Road to UCZ. This zoning allows for medium to high density residential with possible ground floor commercial space. With this rezoning, the development pipeline has started to increase. Over the three years since the 2016 census there have been 35 residential and commercial developments completed which have added a further 379 apartments and 10,025 sqm of commercial/retail space to the City of Prospect. This is an average of 2,500 sqm of commercial space and 94 apartments per year. These averages sit in the Low Growth range for both the residential and commercial/retail space over the last four years. Chart 1 is an analysis of the historic and future supply of residential apartments within the City of Prospect. This pipeline has been compiled in conjunction with the City of Prospect and allows for a discount methodology outlined in Appendix 1 from 2021.

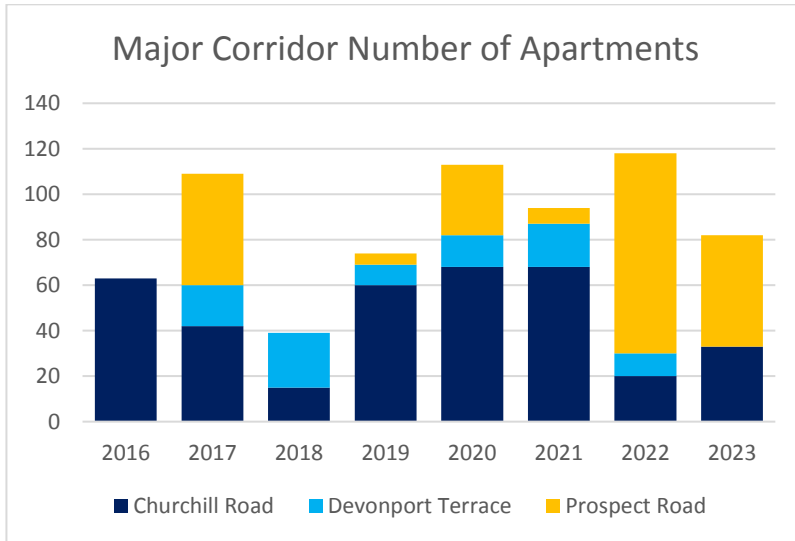
CHART 1 – CITY OF PROSPECT SUPPLY PIPELINE



Source: City of Prospect and Colliers International

If the major development corridors of Churchill Road, Devonport Terrace and Prospect Road are analysed then there have been 285 apartments completed since 2015 which is an average of 71 apartments per annum. The remainder of developments which make up the remaining supply pipeline have a range of side street addresses, but all still within the UCZ. Most of the new development between 2016 and 2019 has been located along Churchill Road. Prior to the rezoning, Churchill Road was mostly single storey residential property on allotments greater than 500 sqm. The underlying land value was lower cost and there was a higher and better use for this land so therefore it was the first area to be developed. The pipeline is showing more development along Prospect Road and if all projects complete in the expected timeframes, Prospect Road will see more apartments completed in 2022 than Churchill Road, this is summarised in Chart 2.

CHART 2 – MAJOR CORRIDOR APARTMENT DEVELOPMENTS



Source: City of Prospect and Colliers International

Our forecasts for population growth expect there have been an additional 732 people in the City of Prospect since the beginning of 2016 (post census), based on 1.9 people per apartment completed. This would increase population growth to 0.89 percent per annum over this period which is in line with the state population forecast growth of 0.9 percent. The current Medium Growth rate of 130 dwellings per annum is expected to be achieved over the next three years (2020 - 2022). Based on 1.9 persons per dwelling this would result in approximately 250 new people per annum in the UCZ.

Our analysis in conjunction with the City of Prospect is showing a strong pipeline of supply based on the current development applications and approvals. The following methodology has been used to project apartment numbers and hence likely rate revenue outcomes.

The detailed methodology by which Council (in conjunction with Colliers) have modelled likely apartment project completion rates and timing is in Appendix 1. Both Council staff and Colliers consider that the dwelling completion numbers provided within this report are conservative in nature, and thus are likely to be realised (albeit that certainty regarding completion numbers decreases through each progressive year of forward projection). To account for likely non completions and lapsed developments the number of estimated completions has been reduced by 22% from 2021. This is based on the average number of lapsed apartment projects in 2015 and 2016. This is outlined in Table 1 below, with the revised estimated apartment numbers reflected in Chart 1.

TABLE 1 – FORECAST NEW SUPPLY

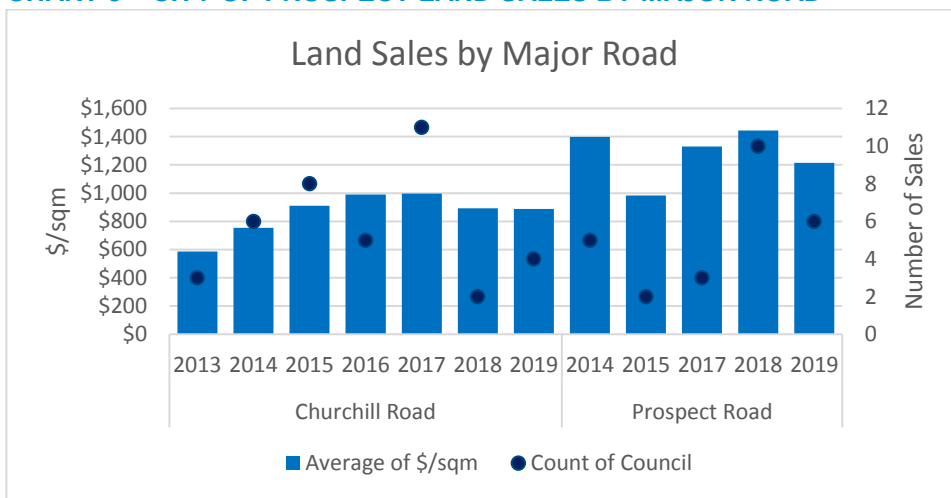
Year	Number of Apartment Estimates	Revised Apartments Estimate with discount	SQM Commercial Space
2020	154	154*	623
2021	154	120	9,767
2022	170	133	2,718
2023	111	87	
2024			2,294

Source: City of Prospect and Colliers International * no discount was applied in 2020 as these were under construction.

To forecast beyond 2022 there are two methodologies which can be used. The first, is an analysis of the available land supply within the council area, which will give an indication as to the long-term development potential. Depending on the rate of development this is likely to satisfy supply up to 25 years. This land supply analysis has been undertaken by an external consultant on behalf of the City of Prospect. It found within the UCZ there is a good supply of land of larger sites which are greater than 900sqm with an 18-metre frontage. These sites are all in the Churchill or Prospect Road Corridors and could yield over 1,000 additional apartments in the longer term.

The second approach, which is a better medium-term indicator, investigates sales within these corridors, which do not have a development application, but appear to have been sold for land value. These sites are the most likely to be developed in the short to medium term. This assumes that all these sites have a higher and better use and that the current owners are willing to develop to a higher and better use in the future. As the land has been sold there also appears to be a capacity to develop these sites in the future. This helps to exclude owners which hold property over the long term and some who may not have the capacity or willingness to develop. This is outlined in Chart 3.

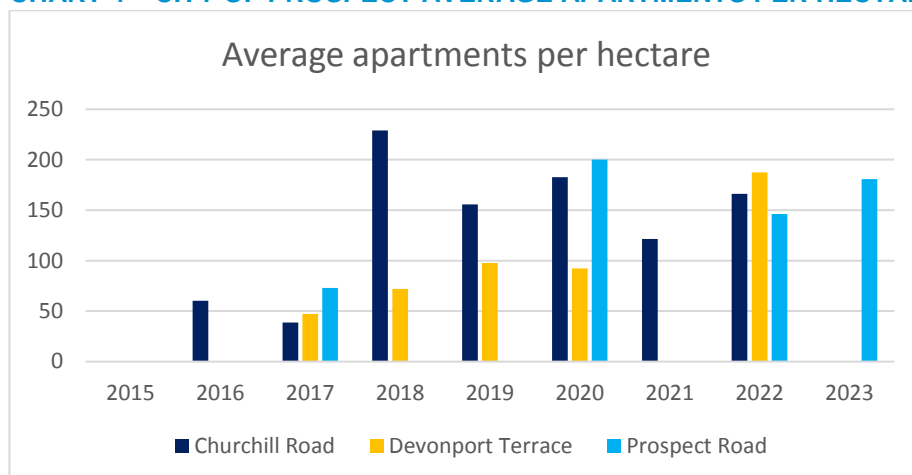
CHART 3 – CITY OF PROSPECT LAND SALES BY MAJOR ROAD



Source: RP data and Colliers International

This analysis of sales just prior to the announcement of the rezoning of the Urban Corridor helps determine which sites have a higher and better use and appear to have been purchased as a development site. This analysis shows there have been 39 sales in Churchill Road and 26 sales on Prospect Road since 2013. Average rates per square metre along Churchill Road, increased to close to \$1,000/sqm by 2017, but has started to ease in 2018 and 2019. Prospect Road saw average land rates increase exceed \$1,400/sqm in 2018, but this has also eased in 2019. Increased growth in land values is a limiting factor for future development.

CHART 4 – CITY OF PROSPECT AVERAGE APARTMENTS PER HECTARE



Source: City of Prospect and Colliers International

Our analysis of the historic development pipeline shows that the average apartments per hectare has increased since the rezoning – this is outlined in Chart 4. For the purposes of this analysis we will apply the average for each major road to determine the possible future supply, which is outlined in Table 2.

To determine the medium-term development potential, we have conducted an analysis of the number of sites which have been sold but do not have an active development application - outlined in Table 2. We expect that this pipeline will service over the next 5-7 years and assumes that all sites are redeveloped.

TABLE 2 – CITY OF PROSPECT POSSIBLE MEDIUM-TERM SUPPLY

Road	Number of Lots	Sqm Sold	Average Yield	Possible pipeline
Churchill Road	19	14,351	124	178
Prospect Road	14	13,918	143	199
Devonport Terrace	8	5,616	95	53
Total	41	33,885		430

Source: Colliers International

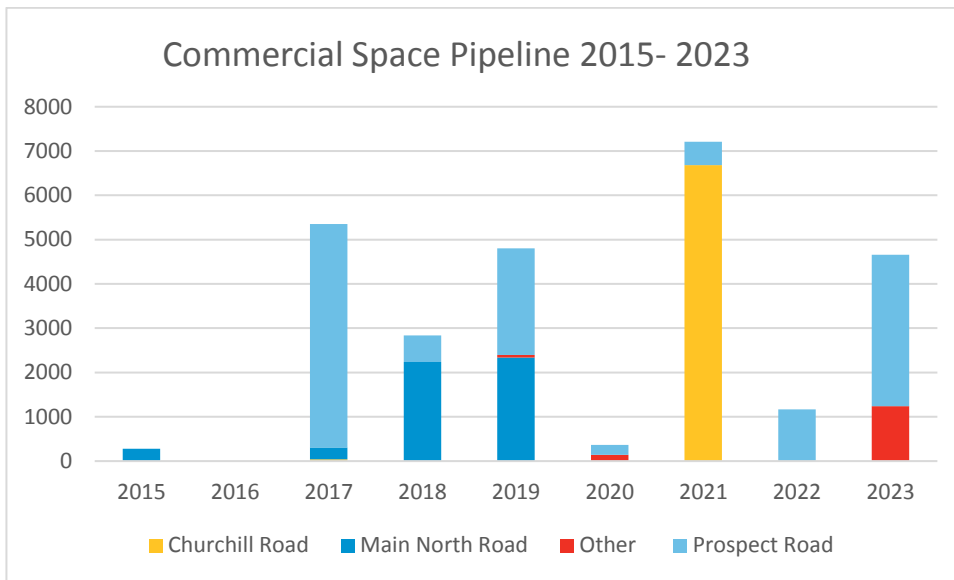
Based on our analysis there could be a further 430 apartments developed based on the average yield (from Chart 4) and all sites which have been sold are developed over the 5-7-year time frame. If this is added to the current supply pipeline, and larger sites which are greater than 900sqm in the UCZ then there is sufficient supply to meet both the Medium and High Growth scenarios.

The rezoning is only the first part of encouraging new development. There needs to be a ‘higher and better’ use for the land. This was particularly the case for Churchill Road, which was mostly older grade single storey residential property prior to the rezoning. Residential development along Prospect Road has taken longer, with a less compelling case for higher and better use due to the stronger business focus and higher land values. There is more opportunity for development outside the village heart at the South and North ends of Prospect Road within the council area. We will investigate some of the factors which will influence future supply for residential.

New Commercial Supply City of Prospect

An analysis of the historic and future supply of commercial space is outlined in Chart 5 below. This analysis has been completed in conjunction with the City of Prospect. Commercial development is much lumpier than residential development, with a couple of large projects which boost supply. Most of new supply delivered has been pre-committed prior to construction and therefore the supply pipeline tends to be demand led. Several of the major developments include the completion of the cinema complex in 2017, New Council Chambers (Payinthe) in 2019 and the future completion of Kaufland at 250A Churchill Road in 2021.

CHART 5 – COMMERCIAL SPACE PIPELINE CITY OF PROSPECT



Source: City of Prospect and Colliers International

Since 2015 there have been 12 projects which contain commercial space completed. Four of these projects included apartments as part of the development with most of these developments having a side street address within the UCZ. There are a further 12 developments containing commercial space which are at various stages of development. Half of these developments in the pipeline have a residential component to the project.

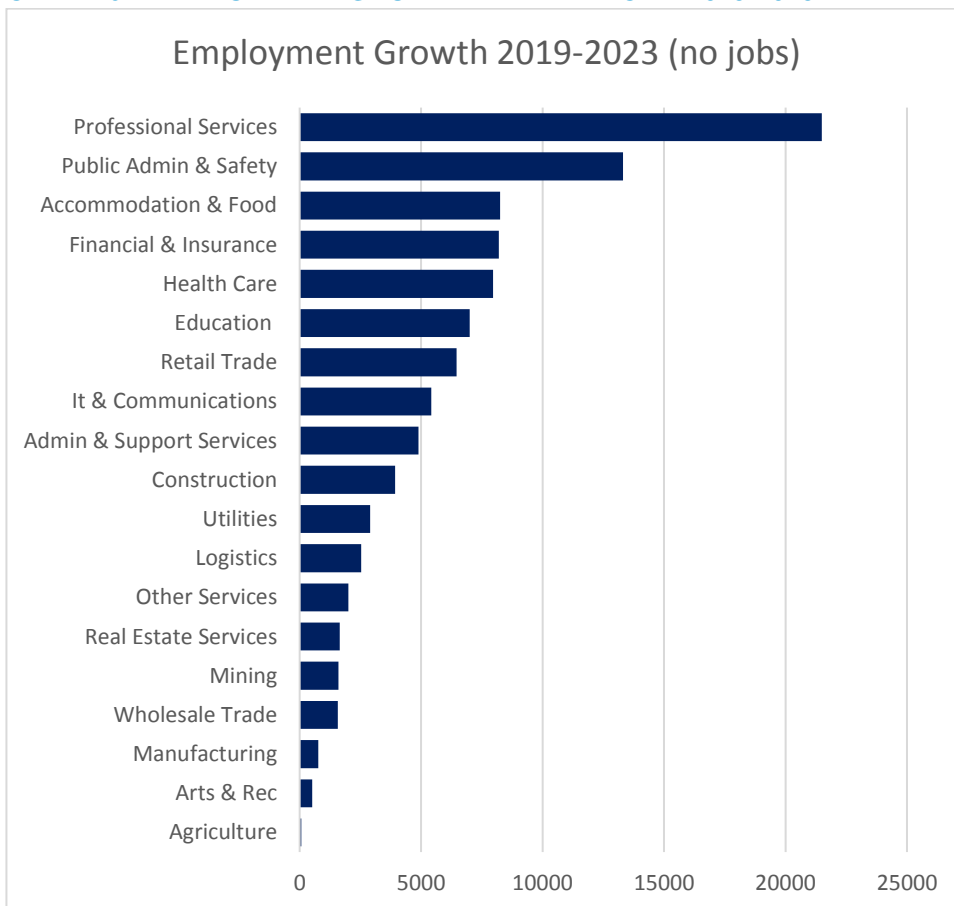
The High Growth scenario for the City of Prospect seek to develop 3,500 sqm of commercial space per annum. This target has been exceeded in 2017 and 2019. However, 2020 will see low growth, while 2021 (Kaufland) will fall within the high growth scenario and 2023 will be dependent on market conditions.

EMPLOYMENT GROWTH

There is a strong correlation with white collar employment growth and office demand, and we use this to forecast future demand for office space. We have therefore conducted an analysis of employment growth in the Adelaide CBD, using Deloitte Access Economics employment forecasts which is outlined in Chart 6. This looks at total employment growth between September 2019 and September 2023 and looks at the sectors which are expected to contribute the most to growth over this period.

Major areas of growth are Professional Services, Public Administration, Accommodation and Food, Finance and Insurance, Health care and Education. As City of Prospect is an inner-city suburb, we expect that growth in employment will come from these sectors also. These forecasts give a good starting point for demand of commercial and office precincts in the City of Prospect.

CHART 6 – EMPLOYMENT GROWTH ADELAIDE CITY 2019-2023



Source: Deloitte Access Economics (Sept 2019) & Colliers International

There are three distinct precincts for commercial space in the City of Prospect. Churchill Road is mostly residential with limited commercial space currently. Churchill Road is now seeing a limited number of ground floor retail with apartments above as part of future developments. This however has not been a feature of past developments along Churchill Road. Prospect Road is more a “Village” with cinemas, food, services, and small office developments. It is more likely that developments along Prospect Road will have ground floor retail which continues to enhance the amenity of the Prospect Road precinct. The addition, of the GigCity Adelaide network and the Innovation Precinct Plan, are Prospect Road’s entre to the development of more office space. Main North Road is the third major precinct, which is currently a mix of large format, commercial, shopping centre and car yard uses. This is a high

traffic route from the north to the City and has been highlighted by council as needing to improve its amenity. This precinct has also been flagged as a future office precinct.

Analysis of other office precincts

There are several already established office precincts which can be assessed to determine the possible sources of demand for the City of Prospect.

These include Adelaide Fringe, Port Road and Kent town/Norwood. Below is a summary of the metrics for each of these markets.

TABLE 3 – COMPETING OFFICE MARKETS

Market	Square metres	Vacancy	Average Building size
Adelaide Fringe	218,652	13.1%	1,883
Norwood/Kent Town	95,915	10.9%	706
Port Road	24,246	4.2%	2,021

Source: Colliers International

The Adelaide Fringe includes Greenhill Road (Anzac Highway to Fullarton Road), Fullarton Road (Greenhill Road to Kensington Road), as well as three buildings in Keswick and Dequetteville Terrace. This market tends to be older stock (built in the 1980s) and had good car-parking when developed. The tenants which occupy the Adelaide Fringe tend to be professional services (accounting and finance) with most being small to medium enterprises. There are several limitations with the Fringe market which include:

- Not enough car parking due to open plan offices able to accommodate more people
- Many older buildings do not have disability access and lifts which limits demand for above ground floor tenancies
- Amenity for office workers is limited.

We have seen an ongoing trend of fringe tenants moving into the CBD. Much of this is due to the improved amenity within the CBD. This has become a key attraction for tenants as the improved amenity helps to attract and retain staff. If development was to occur on Prospect Road the amenity of this precinct would be an attraction. Provision of carparking for a non-CBD office location is imperative for tenant attraction.

There is only one new development in the Adelaide Fringe which is at 210 Greenhill Road, which will be the new headquarters for Bridgestone, who are currently located at 196 Greenhill Road. Refurbishment activity has been more active in the Fringe with new office development being limited over the past few years. There has however been two residential projects One Park (Cnr George Street and Greenhill Road) and Minno (56 Greenhill Road, Wayville) which are both under construction.

Kent town/Norwood office precinct is a smaller precinct and generally older quality stock. As with the fringe tenants tend to be professional services and medical services. As with the Adelaide Fringe there has been more refurbishment activity in the Kent town Norwood Office precinct rather than new development in this precinct.

Port Road is the smallest of these precincts at 24,246 sqm. Over 14,990 sqm of stock in this precinct has been constructed since 2007 which was over five projects. Two of these buildings of circa 4,000 sqm with three buildings above between 2,000 and 2,700 sqm, with the remainder of buildings below 2,000 sqm. As far as new development of an office precinct, Port Road is the best comparable example. New office development however is lumpy, and

pre-committing a new office precinct in metro areas tends to take longer. Major sources of pre-commitment demand is small to medium enterprises, with several not for profits underpinning a new development.

A broader analysis of new development in suburban locations has shown that the scale of development tends to be smaller around 1,000 to 3,000 sqm. Government has been a major source of pre-commitment as has the small to medium enterprise private sector.

Key attractions for tenants include:

- Ample car-parking for staff and customers/clients
- Good amenity and food options
- Good quality accommodation with good natural light and fit-out
- Good IT connectivity.

Our analysis of established markets shows that there is good demand for spaces sub 400 sqm in metro office areas. It is much more difficult to secure larger tenants in metro locations. This has been confirmed by talking with several developers. There are however opportunities for this sort of development (as shown with Port Road), but does require a developer with vision and commitment to the area.

Future Demand for Commercial Space

The pipeline of new supply is expected to exceed the high growth scenario over the next two years. Supply of commercial space tends to be lumpier than residential apartments and is determined by larger projects. We expect that over the medium term that commercial space will be part of mixed-use developments, with demand likely to be stronger in the Prospect Road precinct due to the excellent amenity in the area. We see as the density on Churchill Road continues to it is likely there will be more demand for ground floor commercial and retail space in future developments.

We expect that in line with employment growth demand will be focused on Professional Services, Public Administration, Accommodation and Food, Finance and Insurance and Health care. Also given the aging population there are also opportunities for further development in retirement living and aged care.

Pre-commitment for office only precincts in suburban locations tend to take some time and require a committed developer with a vision. The best example within the City of Prospect is the completion the Cinema precinct in 2017. The ground floor retail was fully let prior to completion and was part of the catalyst of the transformation of Prospect Road. At time of writing there was only four retail vacancies along Prospect Road which is the lowest vacancy of any suburban retail precinct within Adelaide. It is worth noting that in discussions with the developer for the cinema project, it took almost a decade to come to fruition.

Main North Road has been earmarked as a future office precinct. It is currently a range of different uses, with several large underutilised sites. This is a high traffic road and currently has poor amenity. There are no current applications along Main North Road which would be considered office. Given the lead times on pre-commitment for a metro office projects and that there are no developments before council we expect the conversion to more office use is a medium-term to long term prospect.

Factors influencing supply & demand of development

There are several factors which will impact the supply (based on demand), within the City of Prospect. Most of these can be applied to both residential and commercial developments. Key factors which influence a project reaching completion include:

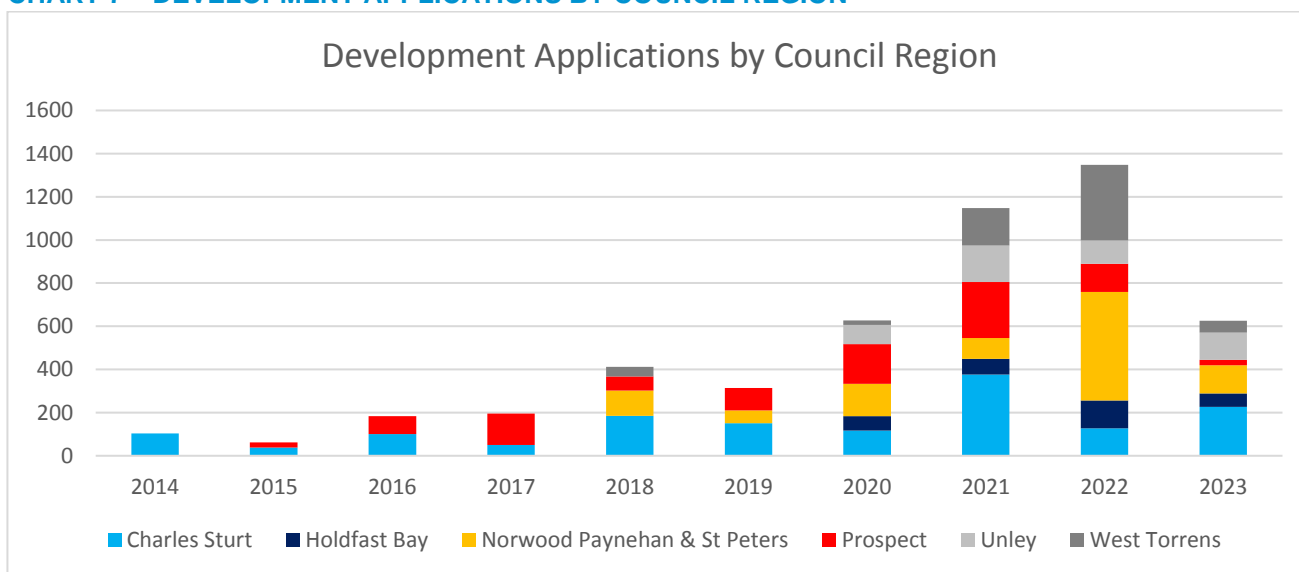
- Increasing land values which limit development returns
- Better returns from mid-rise development in competing council regions
- Access to construction funding
- Lack of demand and therefore presales targets not reached to meet funding requirements
- Owners 'land banking'. There is high private ownership in these precincts, with some owners not being active in redeveloping their property, and in some cases unrealistic price expectations when there is an opportunity to sell to active developers.
- Difficulty in amalgamating sites to get scale for a development.

Land values along both Prospect Road and Churchill Road have started to show signs of easing, and therefore in the short term this is unlikely to be a limiting factor to development.

The City of Prospect had a first mover advantage regarding the rezoning, being the first council to see medium density residential development in its urban corridors. Churchill Road also had a compelling higher and better use for the land and therefore kicked off the development pipeline. However, several **competing inner-city council regions** have rezoned areas for medium to high density residential which has resulted in an increase in the number of applications for medium-high density developments in other precincts. We have analysed the pipeline of development applications in surrounding council region, outlined in Chart 7. For purposes of this analysis we have excluded the developments in the Adelaide CBD, as these tend to be high rise developments rather than medium density developments.

The pipeline for medium density residential in inner city council regions has strengthened over the past couple of years, and this may dampen demand for apartments in the City of Prospect. If this is the case, presales may slow which impacts the ability to commence construction and push out forecast completion dates.

CHART 7 – DEVELOPMENT APPLICATIONS BY COUNCIL REGION



Source: Cordell Connect & Colliers International

Access to construction finance is also a limiting factor. Our research shows that developers will need around 50 percent equity to purchase a development site. This can vary and can depend if there is any holding income, but this is a reasonable benchmark. If the development is being financed, most banks would expect that the presales would cover the cost of construction – this is known as one-time cover. This usually equates to 60 to 70 percent of the development needs to be pre sold or leased. There is also much more scrutiny of the presales and any sales to related parties or multiple holdings are discounted from the presales target. The **failure to meet presales requirements** for construction finance is a key reason for project delays or for projects to be abandoned.

Land banking, which is where the land is being held and is not currently the highest and best use of the land is also a restriction development. This also assumes that the value of the land continues to appreciate over time. In most cases these sites generally have some form of holding income (rent from existing structures). This is more the case for private investors and owners which hold land over the long term and are unwilling to sell.

To achieve scale for developments **site amalgamation** needs to be considered for some developers. This can prove to be time consuming as adjoining owners are either unwilling to sell or have very high price expectations which make the development unfeasible. Council could develop a Strategic Sites program which sought to identify sites for amalgamation and sites in the UCZ where mixed use developments of scale could be achieved.

Summary

- 1) Council is currently in a Medium Growth period with 136 apartments estimated to be completed per annum from 2020 - 2022. There is a forecast 494 apartments in the development pipeline to be delivered from 2020 - 2023. However, many projects in the pipeline while approved or under assessment may not proceed to construction. This may be due to housing finance, global economic conditions or slow population growth. It is also noted that to achieve the growth targets there is a need for both commercial and apartment development. While apartment development has been strong, Chart 1 indicates a decline in apartment construction from in 2021.
- 2) Council's reputation as an innovative, connected and engaged City has in part contributed to this growth. While the upgrades of Prospect Road and Churchill Roads' have been important factors in providing the environment for commercial growth. Similar efforts to upgrade Main North Road and North East Roads' may be required to encourage the development of these corridors.
- 3) Maintenance of this growth will require a diverse range of apartment and commercial initiatives with the private sector. These could both generate demand and assist with the supply of projects. One of the biggest challenges for the City of Prospect given the low population growth in SA is the competition with other inner ring Councils. Proposed planning reforms may remove City of Prospect's UCZ advantage as the State Government seeks to replicate this success in inner metropolitan Adelaide.

The development of projects in the commercial sector will be the greatest challenge. Major projects include the cinema project, office space in the Innovation Precinct or more health consulting rooms, all take a longer time to develop than residential apartments. The development of targeted commercial investment attractions programs and precinct upgrades to attract specific businesses, needs to be developed to ensure that Council has a balanced approach to achieving its growth ambitions over a ten-year period.

Appendix 1

Methodology for Estimated Apartment Completions

Planning approvals were used to provide a baseline number of projects that are in the apartment *pipeline*.

To account for the number of projects that will receive planning approval but not ultimately be constructed, Council staff have (together with Colliers) reviewed each project individually. This has included consideration of which projects have progressed to further approval/sales stages, as well as consideration of the size and experience of the developers behind each project.

In particular, both staff and Colliers observed that developers with limited experience in the building and design industry, such as “mum and dad” developers, proceed with projects at a slower rate than more experienced developers.

To validate this process and allow for an averaged non-completion rate to be incorporated into the projections, an analysis of planning approvals granted in 2015 and 2016 was undertaken. These years were selected as they provide sufficient time to allow projects to proceed through finance, sales and approvals processes.

Most of those projects that received planning approval in 2015 and 2016 are now either constructed or under construction. The total number of projects that have not proceeded amount to 4 per annum despite follow-ups and advice from Council. These projects represent 22% of the total number of dwellings that received planning approval in 2015 and 2016 in the UCZ. The 22% discount has been applied from 2021 as projects in 2020 are already under construction and are considered locked in.

By way of summary, the methodology used to determine likely completions for the UCZ is detailed below:

1. Collecting information on each project that has received planning approval;
2. Review status and scale of each project to determine initial likely commencement and completion dates;
3. Compare these initial dates with *Cordell Building Index Report* listed completion dates and adjust to whichever date is the more conservative (i.e. the longer timeframe);
4. Assess project management capability associated with each project and extend estimated completion dates by 1-2 years for projects with less experienced developers;
5. Remove or further extend completion dates in relation to projects that have experienced known planning, marketing or construction issues (particularly where limited funds have been extended in completed project stages to date);
6. Following the above removal or extension of completion dates, a further 22% discount in the number of dwellings estimated to completed is applied based on the 2015 and 2016 experience.

This methodology provides a conservative estimate of the number of likely apartment outcomes in any one year, noting that the confidence in the projection is greatest for 2020 and lowest for 2023.